

22 March 2020

Snap

Germany: The big fiscal bang

Today, the government will agree on an unprecedented fiscal package, trying to mitigate the economic impact from Covid-19 and the preventive measures to limit the outbreak



Today, the German government will officially decide on another set of fiscal measures to mitigate the economic impact from Covid-19 and the preventive measures to flatten the curve. According to media reports, the government will agree on an additional budget of some 150bn euro. While there had been frequent international criticism on the German government for doing too little to stabilize the economy and invest into future growth, facing the Covid-19 crisis, the German government has reacted swiftly. It is thinking big.

Over the last two weeks, the government has announced a series of measures, consisting of guarantees, loans and fiscal stimulus. Here is what we know so far:

- The conditions to apply for the so-called short-time work schemes, subsidized by the government, which helped stabilize the German labour market during the 2008/09 crisis, will be loosened. Also, the government announced it will increase its share in the subsidies.
- Investments will be increased by 3.1bn euro per year, from 2021 to 2024. This is less than 0.1% GDP per year.
- Tax-related liquidity assistance for businesses, i.e. allowing to defer tax payments
- Billions for Business (unlimited amount) in the form of guarantees and subsidized loans through KfW, including an extension of existing programmes

and setting up new ones. The federal government provides guarantees of some 460bn euro. If necessary, this can be increased by up to €93 billion at short notice.

At the end of last week, two additional measures were discussed.

- A 50bn euro fund for freelancers and small companies with up to 10 FTEs. These companies will get up to 15,000 euro for three months, not as a loan but as fiscal support.
- A stabilization fund for companies with a volume of some 600bn euro. This fund will follow the example of the bank rescue funds, providing guarantees of up to 400bn euro to tackle liquidity problems. Also, this fund will get 100bn euro to directly support companies. Finally, the funds will provide loans to the KfW up to another 100bn euro.

Today, the government will decide on the start of a stabilization fund for companies as well as the support funds for freelancers. Taking all measures of the last two weeks together, the government will use some 30% of GDP with guarantees and direct fiscal stimulus to tackle the economic impact from Covid-19 or better tackle the economic impact from the preventive measures to flatten the curve. The government measures to limit the outbreak of Covid-19 have put the economy into an induced coma. With a fiscal big bang, the government tries its own 'whatever it takes' to keep the patient alive.

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